

**Abstract**

A method and system for determining effectiveness of a hedge on a hedged item is disclosed. The method and system includes determining a standard deviation of changes in value of a hedged item over a known time frame; determining a standard deviation of a combination of the changes in value of the hedged item and changes in value of a hedging vehicle over the known time frame; and, determining a ratio between the determined standard deviations. In another aspect of the invention, a volatility reduction measure is determined as the compliment of the determined ratio and effectiveness is determined when the volatility reduction measure is above a known level.